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SECURING THE GOLD STANDARD BY LAW.

BY JOHN DALZELL, MEMBER OF THE HOUSE OF REPRESENTATIVES
AND OF THE REPUBLICAN CAUCUS COMMITTEE.

THE period preceding the last Presidential election was one of great business depression among the American people. It was also one of great anxiety. However men may differ as to the causes of the depression, there can be no question that the chief cause of anxiety arose from a fear that the American monetary standard, which was that of the leading civilized nations in modern times, might be abandoned for the silver standard. The advocates of the free coinage of silver at the ratio of sixteen to one contended that the demonetization of silver and the scarcity of gold had caused a fall of prices and a paralysis of industry, and that prices could only be restored and prosperity regained by the opening of our mints to the free coinage of both gold and silver, and to the latter at the named ratio. They freely predicted that a failure to adopt their remedy would result in still further depression. This was one of the most important issues of the campaign upon which the advocates of the gold standard and their opponents went to battle. The Republican platform declared that "the existing gold standard must be preserved," and it went on to say:

"All our paper currency must be maintained at parity with gold, and we favor all measures designed to maintain inviolable the obligations of the United States, and all our money, whether coin or paper, at the present standard, the standard of the most enlightened nations of the earth."

The result of the contest was an emphatic endorsement of the Republican position, and a positive declaration in favor of the maintenance of the existing standard. Following upon the last election, there has come a revival of business activity and a period of prosperity unprecedented in our history. The prophecies of the free-silver advocates have failed of fulfilment, and their stock

argument of a relation between the price of silver and the price of wheat and other commodities has been shown to be wholly fallacious.

With the renewal of confidence in the integrity of our money, and as a result of the operations of the protective tariff promptly enacted upon Mr. McKinley's accession to office, capital has fearlessly sought investment, labor has found abundant employment, wages have been increased and an export trade has been established marvellous in its value and extent, so that now the United States has become a potent factor in the battle for commercial supremacy and a dangerous rival for the possession of the markets of the world.

Following upon Republican success, it was natural and just that the people should ask that the pledge of the Republican platform be given "the vitality of public law," as President McKinley suggested in his strong speech before the Manufacturers' Association in New York early in 1898. This popular wish, in addition to its general expression in the public prints, found particular expression in two Conventions, representing many of the Boards of Trade of the country, held in Indianapolis in January, 1897, and January, 1898, and by the separate action of many other commercial bodies. There were various reasons why the pledge of the party could not be redeemed during the life of the first Congress under President McKinley's administration. The most obvious reason was that the Senate was not safely under the control of a sound-money majority. There was such a majority in the House of Representatives, and its members listened with courtesy and consideration to Mr. H. H. Hanna, the Chairman of the Executive Committee of the Indianapolis Monetary Convention, and others, the delegated representatives of the business men's conventions.

When, at last, after the elections of 1898, it became obvious that the new Congress, to meet in December, 1899, would have a majority in both branches for the gold standard, after conference it was determined that a caucus of Republican members should be called to decide upon a plan for securing early action in the Fifty-sixth Congress. This caucus, held on February 2, 1899, voted, by seventy-eight to four, that a committee of eleven members of the House who had been elected members of the succeeding House should be designated by

the Chairman of the caucus to prepare a measure for submission to a future caucus at the first session of the new Congress. This course was taken in order that there might be no delays after the meeting of Congress in regular session in December, and that the approach of the Presidential election might not interpose embarrassments to prompt and effective action. The Republican party, through its representatives in the House, thus by an overwhelming majority expressed its willingness to redeem its pledge to give to the gold standard the sanctity of public law, at the earliest possible moment after the power to do so was acquired. The Republican members of the Senate Committee on Finance took similar action, and both the committees named met during the spring or summer (though not together), and spent many days in serious study of the best means to carry out the policy of the party and the wishes of the people.

The House Committee was made up of General Grosvenor, the Chairman of the caucus; of David B. Henderson, of Iowa, now destined to be the Speaker of the next House; Sereno E. Payne, of New York, then Chairman of the Committee of Ways and Means; John Dalzell, of Pennsylvania; William C. Lovering, of Massachusetts; Jesse Overstreet, of Indiana; Joseph W. Babcock, of Wisconsin; Winfield S. Kerr, of Ohio; Charles Curtis, of Kansas; R. B. Hawley, of Texas; Page Morris, of Minnesota, and Eugene F. Loud, of California.

Inasmuch as the question at issue had been carefully considered and reported upon by two committees of the Fifty-fifth Congress, it was deemed wise that the caucus committee should be composed of members who had not theretofore had the subject in charge, so that when the caucus should meet it might have the results of the investigation and thought of as many of its members as possible.

This caucus committee met at Atlantic City on April 17, 1899, and sat almost continuously for more than two weeks, considering the provisions of a financial measure. The result of their deliberations was the adoption of a bill which has not been made public, but which will be laid before the Republican caucus at the coming meeting of Congress.

The first essential feature of any effective legislation dealing with the standard is that it shall be fixed by law. The gold standard has become the standard of civilized nations by a process

of evolution, which has led to a natural preference for the least variable, most compact, most easily transportable, and therefore most economical metal in the great transactions of modern business. It has been an evolution which has marched with such steady steps in the path of growing wealth, higher wages and industrial development that, to the intelligent observer of its progress, any assumption of its connection with the work of individual conspirators or of moneyed syndicates seems puerile. If there has lurked, in a few conservative minds, a fear that the labored arguments of the bimetallists regarding the scarcity of gold had some foundation, and that there really was a relation between low prices, the stagnation of business and the gradual subordination of silver to gold as a standard of value, this fear ought to have been dissipated and this relationship disproved by the present wonderful awakening of American industry.

The United States has been on the gold standard practically since 1834; not by virtue of any legislative enactment, but in obedience to an irresistible natural law which sends the less valuable of two metals out of circulation and makes the other the standard. At the date named, an attempt was made to maintain by legislation what all experience has proved to be impossible, a double standard; and it so happened that the mint value of silver was fixed at a lower figure than its commercial value. As a consequence, silver sought its market elsewhere than at the mints, and gold became the standard, and has so remained ever since. Upon that basis, all contracts have been made from that time to this. Even during the period of suspended specie payments business was transacted with relation to gold values.

When, in 1853, legislation was had reducing the amount of silver in the subsidiary coins, the declaration was expressly made by the committee which reported the bill to the House, that it was their intention "to make gold the standard coin." And so, in the much-abused act of 1873, it was provided that the gold dollar should be the unit of value. Notwithstanding the facts of history and of legislation, the existence of gold as our standard has failed to receive universal recognition, and the battle of the standards has still continued to be waged, as witness the Teller resolution in the Senate in the spring of 1898, which declared for the payment of the outstanding obligations of the United States in silver dollars, and for the legality and good faith of such payment; and

as witness, also, the fact that the last Presidential election turned largely upon the doctrine of the Teller resolution. That resolution failed in the House by a vote of one hundred and eighty-two to one hundred and thirty-three, but it passed in the Senate by a vote of forty-seven to thirty-two, thus illustrating the uncertainty surrounding the interpretation of our present laws. Even now it is apparent that the advocates of the free coinage of silver are preparing to embark in another Presidential campaign upon their old platform.

There can be, of course, no question as to the maintenance of the gold standard so long as a sound-money President and Secretary of the Treasury are at the helm, and hence it has been argued in some quarters that no legislation upon the subject is necessary. But it must be remembered that, under present conditions, a Secretary of the Treasury unfriendly to the standard, or even one who hesitated bravely to use his powers under old laws, might by a single executive act, or by a neglect to act, suspend the gold standard in the United States. The report, in the spring of 1893, that Secretary Carlisle contemplated the redemption of the Treasury notes of 1890 in silver alone, is an illustration of the dangerous power to wreck the standard lodged in the executive department under existing law. Mr. Carlisle had an unquestioned legal right to pay silver only for the Treasury notes, except so far as he might feel governed by the purpose and spirit of American public policy in previous years in support of the gold standard. The descent of the country to the silver standard might be reached by merely passive neglect to replenish the gold reserve when exhausted by the redemption of legal tender notes. Something like this almost occurred in the autumn of 1893, when the cash balance in the Treasury, including the gold available for the redemption of notes, was allowed to fall below \$100,000,000 and the issue of bonds to strengthen the Treasury was deferred until the beginning of 1894.

These incidents occurred under an administration devoted to the cause of sound money, and which eventually issued \$262,000,000 in bonds to maintain the national credit. What might have happened under an administration avowedly opposed to the gold standard may be surmised, but its evils cannot be definitely measured. A silver Secretary of the Treasury might have declared that, under his view of sound public policy, he would exercise the

option of redeeming public obligations in silver, and, even if he had paid gold while he had it, he might have folded his hands when the gold was exhausted and thereafter paid silver for the interest on the public debt, and for other public dues. Such an act would have terminated the parity of gold and other money in the United States, sent all our circulating money to a discount in gold, brought our bonded obligations pouring back upon the New York market, even more rapidly than they actually came in 1894 and 1895 under the mere suspicion of such a possibility, withdrawn thereby a large volume of capital employed in American industries, produced a series of panics and convulsions which would have destroyed our credit before the world, and set back the hands upon the dial of our industrial progress for a generation. It is against the possibility of such calamities that provision should be made, by writing it plainly in the law that the gold dollar is the standard unit of value of American currency, and that it will continue to be the standard until abolished by deliberate legislation.

But it is necessary that more than that should be done. There must be legislation compelling the fulfilment of the obligations of the United States in conformity with the standard. As it has been urged that there is no necessity for enacting the gold standard, so also it is said that there is no necessity for a law making our obligations payable in accordance therewith, because they always have been so paid. No administration in power has proposed to reverse this policy, but it by no means follows that no future administration shall so propose.

The Government obligations are of two kinds: bonded obligations with their interest, and obligations which circulate as money.

Interest on the public debt held at home and abroad has been paid in gold or its equivalent. This policy could not be changed without producing many of the evil consequences involved in a change of the standard. Since this is the settled policy of the United States in common with other responsible Governments, nothing can be lost by enacting it into law. On the contrary, much is likely to be gained, in actual saving of money, as well as in our heightened credit, by declaring specifically that gold is the money in which our public obligations are payable. It will be necessary in 1904 to convert \$100,000,000 in outstanding five per cent. bonds, and in 1907 \$559,652,650 in four per cent. bonds, except

so far as some portion of these bonds may be redeemed and retired in the meantime. There is no doubt that this conversion can be made upon much more favorable terms for the Treasury, if all public obligations of the United States are specifically payable in gold coin of the present standard weight and fineness. The offer made by the bond syndicate to Mr. Cleveland to pay \$539,159 per year more for \$65,116,275 in four per cent. gold bonds, running for thirty years, than for bonds payable in coin, would have amounted to a saving for the entire term of the bonds of \$16,174,770. This offer illustrates the different point of view from which coin and gold bonds are regarded. A like saving upon the large volume of the four per cent. bonds which mature in 1907, upon a similar extension for thirty years, would result in a gain to the taxpayers of more than \$130,000,000.

The reasons which favor making the bonded obligations of the Government payable specifically in gold apply with equal force to the payment of the obligations of the Government which circulate as money. Legal tender money issued by the State necessarily becomes the standard of value in exchanges. Nothing but specific contracts for the payment of another form of money can guard against the effects of changes in the legal tender money of the country, and such contracts are not practicable in the small transactions of daily life, including the payment of the wages of labor. The payment of bonds in depreciated money, injurious as it would be to the national credit, would be only an incident in the financial policy of a State which steadily maintained its circulating money upon the gold basis. In many senses, it is of much greater importance that the paper money of the United States should be redeemed in gold on demand and kept constantly at par with gold, than that the bonded obligations should be thus sustained. The depreciation of legal tender money means injustice to every creditor, the vitiation of nearly every private contract, and the introduction into arrangements for the payment of wages and into business transactions of elements of doubt and speculation which make legitimate commerce the prey of bullion agents and brokers in exchange. The members of this class, which has a legitimate but subordinate function in a solvent country, become in truth the kings of finance and the masters of the fortunes of the people, when the circulating medium is divorced from the free play of the foreign exchanges, by falling below parity with

gold in the world's markets. A country upon the gold standard has the gold of the world to draw upon for the defeat of any possible conspiracy for the cornering of money. A country upon a depreciated standard is shut off in a measure from the world's money supply, and compelled to pay for the use of the sole legal tender the prices which the exchange brokers push up and down, according to their opportunities of profit.

The two requisites therefore—that gold should be made the standard of value by law, and that public obligations, whether bonds or legal tender money, should be specifically payable in the standard or its equivalent—seem to be essential in a prosperous industrial country which proposes to compete upon equal terms for supremacy in the world's markets with other civilized nations. But more than mere declarations are necessary. Power must be vested in the proper officials to carry out these declarations in periods of stress. The President and the Secretary of the Treasury should be armed with every power necessary to execute the two declarations which affirm the standard and apply it to public obligations. Their powers under existing law are doubtful. Every President and Secretary of the Treasury heretofore has assumed the authority to raise means for the maintenance of the gold standard. But the authority should be clear and express, not the subject of assumption or construction. How widely diverse are the interpretations of existing law was shown, as we have seen, by the action of the Senate and House with respect to the Teller resolution.

Then, again, in order to remove all doubt regarding the purpose of the Government and its ability to maintain the gold standard against any contingency, the amount of the gold reserve should be fixed, the reserve should be separated from the fiscal service of the Treasury, and the Secretary of the Treasury should be directed to sell bonds upon an economical basis, or to issue short-term Treasury certificates whenever necessary to keep the gold reserve constantly at the point which would ensure the confidence of the business community. The maintenance of a proper reserve is one of the fundamental requirements of modern finance. Economy in the use of gold results in the settlement of many millions of dollars' worth of transactions, through the exchange of banking credits by the banks and clearing houses. These credits in the great civilized States which adhere to the gold standard

have acquired nearly the same solidity as gold. But they depend for this solidity upon the belief that the great banks which issue and assume such obligations can find the gold for the settlement of balances, and for the execution of their great mass of contracts to deliver gold, on the occasions when the gold is demanded. The United States Treasury is without the power to attract gold from abroad by regulating the discount rate. It can inspire confidence in its paper issues only by keeping a visible reserve capable of meeting all probable demands. It is idle to say that the public credit will sustain the value of money which is not immediately redeemable. Experience has shown that this is not the case, because paper money is a contract to deliver coin on demand, and not a certificate for the delivery of value at some indefinite date. What the holder of paper money desires is not the redemption for value in the obscure future, but command over gold coin, the money of international exchanges, at the precise moment when he has the occasion to use the money. This can only be secured by a metallic stock which will meet all ordinary demands and provide a safe reserve against contingencies and unexpected disasters.

From what has been said, it logically follows that the Government should not discriminate among its monetary obligations. The United States is already pledged by the Act of 1893, which repealed the silver purchase clause of the Act of 1890, to "the maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts." This parity can be effectively insured only by treating all public obligations alike as redeemable in standard money on demand. There has been hesitation in some quarters to place silver upon an equality with gold by providing for the free interchange of the two metals by the Government, because of the fear that the Treasury would add unduly to its present burdens, by the offer to exchange \$482,122,376 in standard silver dollars for gold. At first blush, this seems a serious proposition. A moment's consideration will show, however, that it cannot add to the real burden on the Treasury.

A system of silver redemption as the equivalent of gold now prevails through the receipt of silver for public dues. In the absence of legislation changing the law in this respect, and thus discrediting silver, it is within the power of the citizen

practically to secure gold redemption of his silver, while he at the same time robs the Treasury of its main supply of gold, which accrues from daily receipts thereof in customs and internal revenue taxes. The statistics of the customs receipts, covering a recent period of years, demonstrate the fact that, whenever discredit is thrown upon the silver or paper money of the country, protection is sought by the substitution of the latter for gold in payment of the public dues. Prior to 1890, the date of the passage of the Sherman law, customs dues were paid almost wholly in gold certificates. From that date down until 1897 payments were made in large part in United States notes, Treasury notes and silver. Thus, in December, 1893, the proportion of silver certificates paid reached fifty-one and one-tenth per cent., and did not fall below forty-five per cent. during any of the first eight months of 1894. It is fair to presume that the enactment of a law which would avoid any discrimination against silver would be the most effective method of protecting the Treasury against demands for its exchange for gold.

But assuming, for the sake of the argument, the exchangeability of silver for gold to be some menace to the Treasury, the possible danger would seem to be of insignificant proportions. Our stock of silver is scattered amongst seventy-five millions of people, throughout the whole vast area of our country. It constitutes the current money of exchange. It has to do with all the myriad small transactions of business life. It would be almost impossible to withdraw it from circulation in any substantial amount. That could only be done at all by paying a premium for it. It is beyond reasonable conception that any contingency can arise which would make its exchangeability with gold a serious menace to be provided against.

Nor, if we consider the statistics as to the silver held by banks, does there appear to be any likelihood of danger from that source. On February 4, 1899, for example, the amount of silver dollars and silver certificates held by banks amounted to \$43,501,196, less than one-tenth of the whole stock. This was distributed among thirty-six hundred national banks. It constituted their small change. It was absolutely essential to the conduct of their daily business. Moreover, it was widely distributed over the whole country. New York held only \$7,200,000; Chicago about \$4,000,000; St. Louis less than \$2,000,000. About \$14,000,000

was distributed throughout other reserve cities. The balance was held by country banks in the New England, Eastern Middle, Southern, Western and Pacific States. From any point of view, the offer to exchange silver for gold does not seem to promise any additional burden on the Treasury. An additional safeguard might be provided by the limitation of the issue of silver certificates to denominations of five dollars and less.

There are only two alternatives for the Government in regard to the silver dollars—to discriminate against them or to treat them in every respect as the equal of gold. Discrimination means that the coins would fall below par or be paid for public dues to the exclusion of all other forms of money. So long as the Government redeems silver dollars by any method, it does not essentially change the burden imposed upon the Treasury, whether this redemption is in the acceptance of the silver for public dues, or in the direct offer to receive silver in exchange for gold. If the Treasury elects to pursue the policy of accepting silver for public dues alone, it is merely left for the banks and the taxpayer to sort out their silver for the payment of customs and internal revenue taxes, and to retain their gold. Much more effective, in maintaining confidence and diminishing the burdens upon the Treasury, is the proposition to treat all issues of national money alike, by the offer to exchange one for another at all times without discrimination, and to maintain all at an equality with the standard of value. In such a case, the stream of gold entering the Treasury through the public dues will not be dried up, even if it is slightly attenuated in periods of commercial disaster, and the occasion for issuing bonds to maintain the reserve will be much less than under a policy of discrimination and timidity.

These, then, are the fundamental propositions of an intelligent beginning in the reform of our monetary system—the declaration that gold is the standard, the provision that public obligations are payable in the standard at the will of the holder, and the grant of the power to the executive officers of the Government to take all necessary and efficient steps to execute these pledges, until they are directed to do otherwise by the deliberate judgment of the people, expressed through the mandate of the law-making branch of the Government.

JOHN DALZELL.